

# *Government that Works!*

NEW JERSEY DEPARTMENT OF THE  
TREASURY

## **Local Government Budget Review**

Town OF  
Kearny

CHRISTINE TODD WHITMAN  
*Governor*

BRIAN W. Clymer  
*Treasurer*

Harriet Derman  
*Commissioner*  
*Department of Community Affairs*  
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## GOVERNMENT THAT WORKS

### OPPORTUNITIES FOR CHANGE

#### *The Report of the Kearny Budget Review Team*

New Jerseyans deserve the best government that their tax dollars can buy. Governor Christie Whitman is committed to making State government smaller, smarter, and more responsive, by bringing a common sense approach to the way government does business. It means taxpayers should get a dollars' worth of service for every dollar they send to government, whether it goes to Trenton, their local town hall or school board.

Government on all levels must stop thinking that more money is the solution to their problems, and start examining how they spend the money they have now. The State's taxpayers cannot afford to keep sending money to their government. It is time for government to do something different.

There is no doubt that local government costs -- and the property taxes that pay for them -- have been rising steadily over the last decade. Until now, the State has never worked with towns to examine what is behind those rising costs. That is why the Local Government Budget Review Program was created by Governor Whitman and State Treasurer Brian W. Clymer. Its mission is simple: to help local governments find savings, without compromising the delivery of services to the public.

The Local Government Budget Review Program fulfills a promise Governor Whitman made in her first budget address, when she offered the State's help to local governments looking to cut costs. This innovative approach combines the expertise of professionals from the Departments of Treasury, Community Affairs, and Education with team leaders who are experienced local government managers. In effect, it gives local governments a management review and consulting service provided to them at no cost by the State.

To find those "cost drivers" in local governments, the teams will review all aspects of the local government operation, looking for ways to improve efficiency and reduce costs. The teams will also document those State regulations or legislative mandates which place an unnecessary burden on local governments, and suggest which should be modified or eliminated. Finally, the teams will also note where a local government is utilizing Best Practices. · cost-saving measures that other municipalities may want to emulate, and deserve recognition.

This intensive review and dialogue between local officials and the State review team is designed to produce significant insight into what factors are driving the costs of local governments, and provide the necessary tools to achieve meaningful property tax relief

## *THE REVIEW PROCESS*

In order for a town county or school district to participate in the Local Government Budget Review Program, a majority of the elected officials must request the help through a resolution. There is a practical reason for this: to participate, the governing body must agree to make all personnel and records available to the review team, and agree to an open public presentation and discussion of the review team's findings and recommendations.

As part of the Kearny review, team members interviewed each elected official, as well as municipal employees, appointees and contractors. The review team examined current collective bargaining agreements, municipal audit reports, public offering statements, annual financial statements, the municipal code and independent reports and recommendations previously developed for the community. The review team physically visited and observed the work procedures and operations throughout the municipal government to observe employees in the performance of their duties.

In general, the review team received the full cooperation and assistance of all employees and elected officials. That cooperation and assistance was testament to the willingness on the part of most to embrace recommendations for change. Those officials and employees who remain skeptical of the need for change or improvement, will present a significant challenge for those committed to embracing the recommendations outlined in this report.

COMPARISON OF BUDGET APPROPRIATIONS, STATE AID, AND  
LOCAL TAX RATE WITH RECOMMENDED REDUCTIONS IN THE  
TOWN OF KEARNY OF GOVERNMENT

<b>A. Tax Collection</b>	\$ 390,000
Delinquent Taxes \$325,000	
Staffing \$ 65,000	
<b>B. Finance Department</b>	\$ 200,000
Investment Income \$ 75,000	
Purchasing \$125,000	
<b>C. Professional Services-General Recommendations</b>	\$ 350,000
Staffing, Insurance Management, Professional Contracts, Other Agencies	
<b>D. Public Works-Competitive Contracting</b>	\$ 340,000
Recycling, Street sweeping, Building maintenance, Shade tree	
<b>E. Public Assistance-Trust Fund I</b>	\$ 313,000
<b>F. Police-Fire Management Reports</b>	\$1,000,000
<b>TOTAL OPERATING BUDGET SAVINGS</b>	<b>\$2,593,000</b>
<b>G. Off Budget Utility Fund</b>	\$ 100,000
Water and Sewer Operations	
<b>Total amount raised for Municipal Tax (FY94)</b>	<b>\$15,325,170</b>
<b>Savings as a % of Municipal Tax</b>	<b>16.92%</b>
<b>Total Budget (FY94)</b>	<b>\$45,252,259</b>
<b>Savings as % of Budget</b>	<b>6.74%</b>
<b>Total State Aid (unrestricted FY94)</b>	<b>\$20,046,737</b>
<b>Savings as a % of State Aid</b>	<b>12.94%</b>

**LOCAL GOVERNMENT BUDGET REVIEW  
EXECUTIVE SUMMARY  
TOWN OF KEARNY**

**A. Tax Collection**

The failure to pursue foreclosure of tax liens has resulted in an excessive level of delinquent Taxes and increased cost to the taxpayers. A duplication of revenue collection functions between the tax of office and the water and sewer office produces unnecessary cost. The total budgetary impact of improvement to the Tax Collection Office is estimated at \$390,000.

**B. Finance Office**

The absence of proper accounting and financial controls has resulted in improper expenditures, incomplete records, and significant lost revenue. Significant changes are required to gain appropriate and lawful control of the Kearny Financial operation. The total budgetary impact of these changes is estimated at \$200,000.

**C. Professional Services - General Recommendations**

Poor general business practices and the lack of effective internal controls has produced significant inefficiency and unnecessary cost. Employees must work more than a 30-hour work week, a centralized controlled purchasing and encumbrance system must be established, and professional fees now in excess of \$750,000 per year must be brought under control. Correction of these deficiencies are conservatively estimated to reduce the cost to the Kearny taxpayer by \$350,000 per year.

**D. Public Works/Competitive Contracting**

Serious consideration must be given to the use of private contract services to provide services presently performed by public employees within the Department of Public Works. These services include; street sweeping, fleet management and maintenance, recycling including leaves, and maintenance of public buildings. These services presently result in an expenditure in excess of \$1,000,000 by Kearny and it is our opinion that savings in magnitude of \$340,000 is achievable.

**E. Office of Public Assistance**

Kearny has the opportunity to realize \$286,000 in revenue from the Public Assistance Trust Fund I and must develop policies and procedures to effectively manage the Public Assistance Program. Total budgetary impact is estimated at \$313,000.

**F. Police and Fire**

The recently completed private consulting reports concerning Police and Fire operations have been reviewed and it is recommended the proposals be substantially incorporated for a projected savings of \$1,000,000.

### **G. Water and Sewer Operations**

The continued utilization of property taxes for the collection and treatment of sewage places an inappropriate burden on the property taxpayer. The ineffective maintenance of water meters results in lost revenue opportunities and excessive cost. Corrections to this process can result in a reduction of the property tax rate and savings in excess of \$100,000 for the utility customers.

### **H. Statutory and Regulatory Reform**

The State of New Jersey must pursue changes in its operating procedures and policies to provide real assistance to municipalities. The property tax appeal process should be modified to provide the municipalities with a clear definition of the amount of value under appeal and provide for a timely resolution of appeals. The consolidated Police and Fire Pension fund should review its regulations and procedures concerning the payment of cost of living adjustments to ensure that municipalities are appropriately billed for these costs. State agencies and agents should ensure that appropriate municipal fees and costs are being paid when services for those agencies are being provided at the local level. Unwarranted or unnecessarily restrictive constraints on the utilization of municipal revenues or state aid should be removed.

## SECTION ONE

### OPPORTUNITIES CONSTRUCTIVE CHANGE *THE RECOMMENDATIONS OF THE LOCAL BUDGET REVIEW TEAM*

The town of Kearny has a significant opportunity to reduce its tax rate by implementing the suggestions of the review team. The team found \$794,000 in cost savings, and \$796,000 in enhanced revenues. These totals do not include the impact of the recommendations contained in the recent Police and Fire Department studies which could save an additional \$1,000,000.

There is also the potential for even greater cost savings. The team identified improvements that should be made in management policies and procedures that will lead to more reductions in cost, additional revenues, or an improvement in the value of the public expenditure. Qualitative recommendations do not readily lend themselves to accurate estimates of the budgetary impact. As a result, the impacts are described as "value added expenditures" a "revenue opportunity", a "cost control", or a "cost reduction." When an estimate is provided it is intentionally conservative.

The list of recommendations is neither complete or exhaustive. Previous written reports such as the Department of Community Affairs Distressed Cities Program Report, the 1994 Police and Fire studies and the report prepared by the Jersey Professional Management Corporation contain valuable information and useful recommendations.

#### ***PART 1: GENERAL RECOMMENDATIONS***

1. Kearny is missing an opportunity to enhance its non-tax revenue through utilization of interest bearing accounts, use of basic cash management techniques and use of short or long TERM certificates of deposit. Accordingly, the following recommendations are made:

- Reduce the number of bank accounts. There are currently multiple accounts for the same function or purpose.  
**Cost control: Time spent reconciling statements**
- Competitively bid all banking services. Traditionally, local government accounts are attractive to local banks because the account balances can be used to meet the federally mandated "on hand. deposit requirements. Competitive bidding can have the effect of making the Town a "preferred customer" at a local depository that will provide above market rates and waive service charges.  
**Revenue enhancement: Additional interest income**
- Establish internal "cashier" procedures in the Office of the Tax Collector. At present nearly every department sends one or more employee to the bank every day. This is time consuming and redundant, particularly when one department writes a check to another department.  
**Cost control: Reduce staff time spent on banking.**
- After establishing the necessary internal controls and documentation procedures, utilize electronic transactions to transfer money between accounts.

**Cost control: Reduce staff time and paperwork used to transfer funds between accounts.**

- Maximize the use of short and long term Certificates of Deposit.

**Revenue enhancement: Additional interest income**

2. It is strongly recommended that every effort must be made to extend the work week from 30 hours to 37.5 hours as soon as possible for Town Hall employees, Public Works employees and all civilian personnel in the Police and Fire Departments. While this matter may be subject to negotiation, it can be readily documented that the current work week is not the norm in the public sector; and, the wages paid are equal to or greater than the wages paid in other public agencies working more hours.

**Cost control: Greater productivity after initial adjustment period**

3. It is recommended a concerted effort be made to restructure the salary scale for all future employees of the Town. The current starting salaries are higher than other comparable public agencies and private firms.

**Cost reduction: The difference between old and new salaries and benefit costs.**

4. It is strongly recommended that Kearny change to a biweekly payroll at the earliest possible date. It is in the best interest of every collective bargaining unit to support changes that will improve the financial condition of the Town that have little to no impact on the well being of their membership. Should it not be possible to achieve this quickly and cooperatively through adoption of a "sidebar" bar agreement to the existing contracts, it is recommended Kearny seek redress during the next round of collective bargaining negotiations. Revenue enhancement: Increased interest income resulting from higher average daily balance(s).

**Cost control: Staff time currently restricted to weekly processing of payroll.**

5. During the review of the professional service agreements, it was noted that:

- Professionals have billed and been paid for work without having first obtained a signed and approved professional service agreement or letter of engagement; In cases where a professional service agreement exists, payments above the authorized amount have been made for work that is covered by the basic agreement. (If the work is not covered by the basic agreement then a second, supplemental agreement was not found.)
- In cases where a fixed fee has been established, payments in excess of the fixed fee have been made apparently without an amendment to the contract or notice to the governing body;
- In cases where hourly rates are stipulated and approved for work outside the scope of a fixed fee agreement invoices have been submitted utilizing higher hourly rates;
- Payments of invoices have been "self approved";
- Payments appear to have been made prior to the meeting date at which a payment of bills list would be approved by the governing body; and
- Invoices have been submitted and payment made in advance of the stipulated work being completed.



Professional services fees were in excess of \$750,000 during the last fiscal year. While no representation is made or inferred as to the quality or quantity of work performed, it is imperative that a major expenditure such as this be monitored closely and executed in precise compliance with statutory regulations and the ethical norms of the respective professions. The exception to the bidding requirements of the Local Public Contracts Law for certain professions and professionals should not be construed by the governing body to mean that cost controls and close scrutiny are not required. It is recommended the governing body take all necessary steps to resolve any remaining deficiencies immediately. (Please see the additional discussion in Section II of this report.)

6. Kearny must resolve its policies, procedures and strategies related to workers compensation insurance, vehicular insurance, liability insurance and other special policies. Basic insurance documents were not available for review in the official records in Town Hall. As such a complete review could not be done; however, the following observations are made based upon discussions with elected officials and members of the staff as well as a review of available correspondence:

- Automobile comprehensive and collision coverage may be excessive, particularly for older vehicles;
- Professional services fees are paid out of the Self Insurance Fund that do not appear to be addressed in any agreement or contract.
- The contract for third party administration of claims had expired without consideration of alternatives resulting from competitive bids;
- The reserve for insurance intended to cover the self insured portion (retention) showed a declining balance, and, it appears that annual allocations have been insufficient to insure its long term fiscal solvency;
- The actions of the third party administrator notwithstanding, there does not appear to be any employee or official directly responsible for control and management of the self insurance fund or any check and balance on the "TPA" contract. (The appointment of an individual to serve as the MELJIF Commissioner is fundamentally different.) Staff members aggressively trying to control workers compensation claims do not feel they have the support needed to institute safety and training programs or to take actions to verify the legitimacy of an alleged injury.

The determination of insurance requirements and the means to obtain the required coverage have become one of the biggest opportunities for local governments to control a major cost in the annual budget. As such, it is recommended a comprehensive review of the total insurance program be conducted by a firm or individual who shall have no opportunity for financial gain resulting from the review (with the exception of the costs associated with conducting the review). In short, no broker, agent or third party administrator should be considered for this assignment.

7. Municipalities have the option of adopting and enforcing a local ordinance related to compliance with minimum ethical standards or complying with a statewide program administered by the Department of Community Affairs. Kearny has not adopted a local ethics law nor is Kearny in full compliance with the established State program. It is recommended that Kearny enforce the local ethics law of this state.

8. The review team observed a variety of different purchasing procedures and methods. The fractured purchasing process results in repetitive purchasing without the cost savings that can be obtained through bulk purchasing. Repetitive purchases by different departments from multiple vendors result in a total purchase amount in excess of the mandatory bid threshold. In addition, there are no established policies and procedures for the use of open or blanket purchase orders. In situations where an open purchase order would be considered reasonable, there are no controls on the length the order may be open or the maximum dollar amount that can be open at one time. There are also products being obtained through open purchase orders for no apparent reason other than convenience. This acts as a deterrent to competition and it undermines the concept of "arms length" transactions which are the basis of efficient public purchasing.

In still other cases, requisitions and purchase orders are not being obtained until after the product has been obtained under the guise of making sure the purchase order is for the correct amount. All of these practices lead to ineffective and inefficient use of the public's money. It is recommended the problems be eliminated by making full use of the Munidex system recently purchased for the Finance Office, properly training the staff, requiring department heads to take a direct role in purchasing (i.e., limit their authority to delegate purchasing matters and decisions) and, making every employee accountable for their actions, through the use of administrative and disciplinary measures as necessary.

**The correction of the problems associated with the purchasing process is expected to produce savings in excess of \$125,000.**

## ***PART 2: RECOMMENDATIONS AFFECTING A SPECIFIC DEPARTMENT***

### **A. Office of Public Assistance**

9. It is recommended the Public Assistance Trust Fund I account be closed and the balance be transferred to the Current Fund. (Please see additional discussion in Section III of this report.)  
**Revenue Enhancement: \$286,000 (one time)**

10. It is recommended the Local Assistance Board develop a general policy statement pertaining to the appropriate uses of local funds to provide assistance that is deemed ineligible by the State. The staff does an excellent job of documenting expenditures and of explaining the rationale for providing the assistance; however, the lack of a formal, written policy statement could leave the staff open to unfair and unwarranted criticism. This may also lead to a reduction in the annual expenditure for ineligible aid.

**Potential Cost Reduction: \$2,000 per year**

11. It is recommended the name of the "Petty Cash Account" be changed as it is a misnomer. The account is actually a well maintained and closely monitored bank account.

12. The impending retirement of the Director will necessitate the appointment of a replacement. Under state law the authority to appoint the replacement rests with the Local Assistance Board yet the authority to set the salary rests with the governing body. It is recommended the appropriate discussions occur in the interest of cooperation and harmony during the appointment process.

**Cost Reduction: Reduced salary and benefits -\$15,000**

13. It is recommended the governing body appropriate the funds needed to automate the record keeping and report writing functions of this office. This will reduce the time needed to complete monthly reports due to Trenton and it will improve the staff's ability to check for fraud or misuse of the system.

**Value Added Expenditure: \$3,000 -\$5,000 (one time)**

14. Should a vacancy occur as a result of the appointment of a new Director, it is recommended the support position be reduced to a half time position and that it be filled through reassignment of an existing Town employee. The number of clients eligible for public assistance will vary from month to month; however, the use of existing personnel to fill a half time position through reassignment should make it possible for the staff to address the workload peaks through scheduling adjustments.

**Cost Reduction: Half-time position: \$15,000**

### **B. ADMINISTRATION RATION OF THE MUNICIPAL COURT**

(NOTE: The review of the Municipal Court was limited in deference to the autonomy of a municipal court and the fact that a number of issues common to most courts are being actively reviewed at the State level. The following suggestions are within the decision making purview of the Municipal Court Judge and the Court Administrator: )

15. Consideration should be given to establishing a regular schedule for transferring unclaimed bail to the Current Fund.

**Revenue Enhancement: \$5,000 per year (estimate)**

16. The schedule of standard fines and fees should be reviewed regularly in the interest of adding as many violations to it as possible. One possible strategy for reducing the pressure on the docket is to encourage resolution of more matters through payment of standard fines and fees that do not require a court appearance. This approach is most common for traffic violations such as speeding, but it can be used for other types of violations once a schedule of fees and fines is set by the Presiding Judge, approved by the Assignment Judge and published by the Court Administrator. Revenue Enhancement: Collection of more uncontested fine and fees.

**Cost control: Reduced pressure on court docket and resulting overtime expenses.**

17. The Court should actively pursue expansion of the community service assignments, and, the governing body should allocate a reasonable amount of money dedicated to providing supervision and supplies to community service workers for clean up projects, painting projects and other necessary tasks. The work assigned to these crews can be legitimate projects that municipal workers would normally not do, thereby alleviating any question as to whether the rights or opportunities of employees in a collective bargaining were being overlooked.

**Value Added Expenditure: \$10,000 (estimate)**

### **C. FINANCE OFFICE**

The Finance Office and all related functions such as purchasing, record keeping, financial reporting, and banking are in a state of disarray. There are clear indications this situation has existed for ten years or more. Accordingly, total responsibility for the state of affairs can not be fairly assigned to the current staff and Finance Officer. A partial list of the shortcomings include:

- A lack of readily available journals and standard bookkeeping records such as the General Ledger;
- Excessive purchasing without the required requisition or purchase order;
- Extensive, uncontrolled use of open purchase orders;
- Split or partial purchasing of the same good from two or more vendors in amounts exceeding the bid threshold;
- Little or no separation of duties for the purpose of maintaining internal controls;
- Little to no accounting for the use of capital funds as evidenced by the inability to readily account for the past use of bond ordinance expenditures; Payment of claims (to professionals) with little or no documentation in support of the voucher;
- Payment of claims (to professionals) in excess of the amount authorized by the governing body;
- An extensive backlog of un-reconciled bank statements;
- Bank accounts having an average daily balance in excess of \$100,000.00 that are non-interest bearing accounts.
- Multiple bank accounts for the same purpose or function.

18. The need to address this matter and some suggested first steps are outlined in the section of this report. A key element to the proposed solution to the problem is the provision of a Certified Municipal Finance Officer by the State for a period of up to three months at no cost to the Town of Kearny. Some of the recommended actions include:

- Consolidate the Finance staff into one location, or at least adjacent locations, i.e. use the existing Finance Office and the rear portion of the Office of the Municipal Clerk;
- Establish and enforce policies and procedures pertaining to purchasing;
- Consolidate bank accounts where possible, establish interest bearing sweep accounts, and competitively bid banking services for calendar year 1995;
- Complete all data entry and bookkeeping work using Kearny employees (thereby making it possible to have a truly independent audit);
- Arrange for timely transfer of funds from "external accounts" such as the Court accounts, the Construction Office account and the accounts maintained by the Municipal Clerk into the Current Fund Account;
- Develop and utilize a simple yet informative set of regular reports on the overall financial condition of the town, the status of the operating budgets and the status of every capital bond ordinance;
- Reorganize the work assignments of the staff of the Finance Office for the purpose of reducing inefficiencies and to improve internal control procedures.
- Maximize the use of the new Munidex computer system.

#### **Potential Revenue Enhancements**

- Interest Income: \$75,000 - \$100,000 per year
- Timely collection of accounts receivable
- Reduced demand for Tax Anticipation Notes due to cash flow projections and Cash management plan
- Reduced likelihood of budget allocations for unresolved inter-fund loans, over expenditures, deferred charges etc. Potential Savings and Cost Controls

#### **Potential Savings and Cost Controls**

- Reduction in professional service fees (\$20,000 - \$50,000)
- Reduced demand for Tax Anticipation Notes, other short term debt
- Control of capital costs through project management

### **D. TAX COLLECTION OFFICE**

19. It is strongly recommended foreclosures be initiated on all eligible properties. It appears this process has not been utilized for more than fourteen years. Given the backlog, it would be reasonable for Council to consider a resolution prioritizing foreclosures by type or category of property to address health & safety hazards, or those properties readily marketable. It is reasonable to expect that as soon as one or two foreclosures are completed the collection rate on delinquent taxes will improve significantly.

**Value Added Expense: Cost of foreclosure(s)**

**Revenue Enhancement: Increased collection of delinquent taxes (\$300,000)**

**Cost Reduction: Elimination of payment of school and county taxes on foreclosed properties (\$25,000 per year)**

20. It is recommended the tax collection and the utility billing & collections offices should be combined. This will allow for effective cross training and permit the elimination of two positions through attrition.

**Cost Reduction: \$65,000 per year**

21. It is recommended that a strong effort be made every year to privately place all tax and utility liens remaining after the annual sale. It is in the best interest of the Town to keep the burden of unsold tax and utility liens to a minimum and to generate as much revenue as possible through the public sale or private placement of these receivables.

**Revenue Enhancement: Reduction in delinquent taxes (\$300,000); reduction in utility accounts receivable (\$200,000)**

**Cost control: Reduction (elimination) of need for foreclosures**

## **E. OFFICE OF THE TAX ASSESSOR**

22. It is recommended the existing ordinance providing for the five year abatement on home improvements be reconsidered. The program does not appear to have generated significant activity or an increased amount of home improvements. In addition, the existence of the ordinance presumes the existence of "urban Blight" which is not the case in most of Kearny. Last, there is no provision in the ordinance (or in a contract with the property owner) discouraging them from filing a tax appeal as soon as the added assessment occurs at the end of the five year abatement period.

**Revenue Enhancement Additional ad valorem tax collections**

**Cost Control: Eliminate tax appeals filed in response to end of abatement.**

23. Existing State regulations provide for considerable autonomy for the tax assessor. This autonomy extends to matters pertaining to tax appeals; however, the cost of contesting an appeal or making tax refunds is borne by the taxpayer. Given the dichotomy between the autonomy of the assessor and the financial responsibility of the Town, it is recommended the Council and the Assessor meet in executive session on a regularly scheduled basis for the purpose of reviewing the assessed valuation of the Town and the status of the major, pending appeals that could have a significant impact on the budget and/or tax rate.

**Cost Control: Improved cost benefit analysis of pending appeals.**

## **F. URBAN ENTERPRISE ZONE**

24. A significant portion of the Urban Enterprise Zone (UEZ) money has been used for operational expenses. This is not sound fiscal policy. It is recommended the governing body adopt a clear and strong policy statement restricting the use of the Kearny's UEZ revenue for

capital projects that will enhance the opportunity for success among the existing businesses and promote the relocation of new business and industry into the Town. The tendency to utilize UEZ funds for operating purposes limits the opportunity to lay the groundwork for a return to economic vitality and it leads to misrepresentation and misunderstanding of the true operational cost of the local government. **Revenue Enhancement: Accelerated development of south Kearny and business corridors. Related Expense: (Re)assignment of operational costs to the Current Fund Budget.**

25. Related to # 24, it is recommended the UEZ Coordinator be assigned the additional, collateral duty of "Coordinator of Capital Improvements." Properly managed capital improvement work touches most offices or aspects of local government. It is essential that one person or one office serve as the clearinghouse to insure proper coordination and to insure completion of all required tasks such as adoption of a bond ordinance, plan review and approval, recording and monitoring of all expenditures. At present many of the legally required steps appear to have been abridged or ignored, and, there has been little to no control over the use of authorized capital funds.

**Cost Control: Control of capital outlay**

26. It is recommended the form of compensation for the UEZ Coordinator and the program secretary be changed to that of an employee. The UEZ coordinator can be an independent contractor; however, there is no professional service agreement or competitively bid contract in place. If additional duties are to be assigned to the UEZ Coordinator, as suggested above, then it would be plausible to recognize the individual as an employee. The program secretary is already an employee and therefore cannot also be compensated as an independent contractor.

**Value Added Expense: Cost of benefits for the UEZ Coordinator**

## **G. ADMINISTRATION OF PLANNING AND ZONING**

27. There does not appear to be any check end balance on the amount set for of a developer escrow accounts nor is there any substantive review of charges made against an escrow account. The party that stands to gain through billing against an escrow account is the same party that determines how much must be escrowed. It is recommended the Planning and Zoning Administrator review and approve all charges made against an escrow account and that a monthly report of activity be sent to the appropriate board as well as the owner of each escrow account. This record can then be compared and reconciled with the double entry ledgers that are to be maintained by the Finance Office.

**Cost Control: Reduced escrow expenditures required for development**

- 28 It is recommended the chairperson of the Zoning Board of Adjustment and the Planning Board insure all professional service agreements are properly executed and placed on file with the municipal clerk for attorneys and engineers appointed by the Board(s).

**Cost Control: Stipulated fees within budget allocations**

29. It is recommended the appropriate allocation of funds be made to accelerate the preparation of a comprehensive update to the planning and zoning ordinances. It does not appear that the ordinances are "in step" with current practices which has generated an excessively high number of requests for variance. It appears that a significant percentage of the request for variance are granted by the Board.

**Value Added Expenditure: Cost of plan and ordinance update (one time).**

**Cost Reduction: Cost associated with processing applications, related professional service fees.**

30. Related to # 29, if there are a large number of "standard variances. which the Board believes should still be filed and publicly noted, even if they are likely to be granted, then it is recommended consideration be given to simplifying the approval process. This should reduce the length of the monthly agenda as well as the backlog of cases, reduce the likelihood of contested decisions, and accelerate the process in the best interest of the citizen.

**Cost Control: Staff overtime, professional service fees, litigation.**

## **H. ENFORCEMENT OF LOCAL AND CONSTRUCTION CODES**

31. It is recommended funds be allocated to improve the automation of the "construction office.. If this office is going to be relocated into the proposed Town Hall annex, then the renovation of the annex should accommodate a fully automated data entry and report submission system.

**Value Added Expenditure: \$5.000 - \$8.000 (one time)**

32. It is recommended an ad hoc committee be appointed for the purpose of meeting with the appropriate personnel from the Hackensack Meadowlands Development Commission to:
- (A) Clarify the procedures for coordinating the HMDC plan approval process and Kearny's code and building inspection process.
  - (B) Identify and resolve potential differences between the HMDC preferred land uses and the Town of Kearny Master Plan.
  - (C) Discuss and resolve any conflicts regarding Stab use of leased lands in Kearny.

As part of its continuing effort to support the effort in Kearny to reduce the cost of government, the Treasurer of the State of New Jersey is prepared to provide technical assistance from the Office of Stab Planning to facilitate in the resolution of these matters.

**Revenue Enhancement Accelerated development of tax base in HMDC controlled area**

## **I. OFFICE OF THE MUNICIPAL CLERK**

33. It was noted the schedule for license and permit fees had been updated with the exception of the local liquor license fee. It is recommended the liquor license fee be updated as permitted by State law.

**Revenue Enhancement \$10.000 per year.**



34. It is recommended a word processing system and records management system that is compatible with the new Finance Office system be purchased and installed. The volume of information that must flow through the Office of the Clerk as well as the pace with which it must be prepared practically mandates that this office be automated.

**Value Added Expenditure: \$16,000 - \$20,000 (one time).**

35. It is recommended all agendas, resolutions and other matters requiring public notice be posted in a conspicuous location sufficiently far in advance of a meeting to insure full and complete compliance with State statutes. (Please see additional discussion in Section II of this report.)

36. It is recommended that the Clerk collect and maintain all official documents of the municipal corporation including collective bargaining agreements, insurance contracts, official financial statements, etc.

## **J. PUBLIC WORKS**

The following categories of public works have been reviewed and it is our opinion that implementation of these recommendations will produce savings in excess of \$340,000.

### **Shade Tree**

37. Subject to receipt of satisfactory bids, it is recommended consideration be given to privatizing all work being done by the shade tree crews.

38. Related to # 36, upon execution of a contract to privatize this work, it is recommended the authorized staffing level of the public works department be reduced by seven positions (Reaching the authorized staffing level can be accomplished through attrition and/or placement of the shade tree workers with the successful bidder.)

**Value Added Expenditure: Cost of the shade tree contract**

**Cost Reduction: Salary and benefits for seven positions**

### **Street Maintenance & Street Sweeping**

39. Subject to receipt of satisfactory bid, it is recommended consideration be given to privatizing street sweeping work. The present schedule of sweeping every street once a week is expensive, particularly when the cost of the dedicated enforcement officers, equipment maintenance, manpower and overhead are considered Based upon contracts and proposals in other municipalities it would be reasonable to expect a 50% reduction in cost if this service was contracted.

**Value Added Expense: Cost of street sweeping expense**

**Cost reduction: Salaries, benefits, cost of purchasing, maintaining and insuring equipment**

40. The street division by default, becomes the "catch-all" for public works projects. As a result, there is considerable debate as to the appropriate size of the staff not to mention continuous discussion regarding the assignments, productivity and priorities of the staff. The disjointed and changing nature of the work assignments makes it impossible for the department head to achieve a desirable level of efficiency or to meet the differing objectives of the elected officials. Accordingly, it is recommended the department head, senior staff and selected Council members meet to formulate a clear mission statement, a general statement of work priorities, and a proposed table of organization.

**Cost Control: Significant improvement in efficiency**

41. Related to # 40: It is recommended vehicle maintenance and repair work on all Town vehicles be consolidated into one shop. Having at least three different groups of employees involved in vehicular maintenance is inefficient and it becomes a deterrent to a well organized fleet management system. In addition, it lends itself to improper purchasing practices, incomplete tracking of maintenance costs and little or no scheduling of preventive maintenance.

42. Related to # 41: There are private fleet management and maintenance corporations that have successfully reduced the cost of this service in other towns in New Jersey while simultaneously improving the timeliness and quality of work. Accordingly, it is recommended a "RFP" (request for proposals) or formal bid notice be published for the maintenance and management of all vehicles. Value Added Expenditure: Cost Of Contract Cost Reduction: Cost Of Salaries, Benefits, Vehicle Parts, Etc.

43. It is strongly recommended controls be (re)established over access to the fuel dispensing and billing systems. External agencies and town departments with access to the fuel dispensing systems are either not receiving bills or they are receiving bills not based on actual consumption. The current condition of the antiquated equipment precludes any effective inventory control and/or billing system. Value Added Expenditure: Computerized inventory control and billing

**Cost Reduction: Elimination in "shrinkage," unbilled expense**

**Revenue Enhancement: Improved collections through complete billing**

## **Recycling & Leaf Collection**

44. The current bid specifications on the garbage collection contract asks each bidder to provide a quote for collecting recyclable materials. Subject to the bids received, it is recommended all recycling collection work be privatized.

**Value Added Expenditure: Cost Of The Contract. Cost Reduction: Salaries, Benefits, Equipment**

## **Public Works - Building Maintenance**

45. It is recommended a contract be let for routine light maintenance and janitorial services covering all building including the library and the library annex. The competitive nature of this business should generate attractive bid results and a considerable savings over the current cost for wages and benefits.

**Value Added Expenditure: Cost Of Janitorial Contract Cost Reduction:  
Elimination Of Two To Three Positions**

## **Sewage Collection And Treatment**

46. It is recommended the cost of sewage collection and treatment be removed from the Current Fund Budget and the resulting municipal tax rate be allocated to a Utility Fund at the earliest possible date. The taxpayer and the rate payer must be viewed as two separate client groups. There is no correlation between the assessed value of a piece of property, which is the basis for a tax bill, and the utilization of water or sewer utility services. This action will eliminate a potential liability resulting from the fact that south Kearny taxpayers already receive a bill for sewage collection and treatment from the KMUA and they receive a tax bill that is based on a budget containing costs for sewage collection and treatment.

**Impact. Transfer of burden from taxpayer to rate payer**

47. Related to # 46, When the cost of sewage collection and treatment is removed from the Current Fund Budget, it is imperative the full amount of the resulting tax burden be eliminated also. It is also recommended that direct and indirect costs such as salaries and insurance be split between the Current Fund and the Utility Fund appropriately.
48. It is recommended billing for sewage collection and treatment services be tied to consumption of water thereby eliminating the need for a second, separate billing system. There are nationally and regionally accepted norms between the volume of water consumed by a customer and the resulting impact on the sewage collection and treatment system.
49. It is recommended an annual contract for all operational, maintenance and repair work in the sewage collection system be established through the formal bid process, thereby permitting the town's utility workers to focus on the maintenance and operation of the water supply and distribution system.
50. It is recommended that Kearny increase competition for engineering work on capital projects through the publication of a request for proposals for all engineering work estimated to cost more than the established benchmark for formal bidding. Adoption

of this recommendation will require a re-orientation to the use of the Town Engineer as proposed below.

**Cost Reduction: Reduced Engineering Fees Resulting From Free Market Competition**

51. It is recommended the role and responsibility of the Town Engineer be revised to reflect that of a "staff engineer," one who represents the interest of the governing body and the public by preparing requests for proposals; reviewing responses to these proposals; evaluating drafts of plans and specifications; evaluating bid responses; insuring timely, accurate and cost effective field work; and contributing significantly to the annual update of a six year Capital Improvement Plan. Clearly, no single firm has a monopoly or franchise for all municipal engineering work.

**Water Distribution And Billing**

52. It is strongly recommended Kearny aggressively pursue a water meter replacement program. Most of the water meters in Kearny are more than 25 years old. Because water acts like a piece of sand paper, the accuracy of a meter is gradually lost as the internal components of a meter are reduced in size and smoothed by the "sanding" action of the water. It is projected that Kearny is losing at least \$76,000 in water utility revenues per year due to the old age of the meters.

**Value Added (Capital) Expense: Cost Of Meter Replacements (One Time)**

**Revenue Enhancement: \$76,000 -1100,000 Per Year**

53. Related to # 52 above, It is recommended the meter replacement program be merged with the installation of remote reading devices. This will enhance the accuracy of the billing process and significantly reduce the workload in the field during meter reading and the data entry workload in the office in preparation for each billing cycle. **Cost Reduction: Personnel Time To Read Meters And Prepare Bills**

54. Significant differences were noted in the annual total of accounts receivable over a three year period. It is recommended that internal control and reporting procedures be established to ensure every account receives a bill every quarter.

**Revenue Enhancement: Reduction In Accounts Receivable**

55. Related to # 54, It is recommended an annual review be conducted to ensure all past due accounts are set for sale in conjunction with the annual tax lien sale. While no formal analysis was done, the number of utility lien sales each year seemed to be small given the amount of the annual receivable.

**Revenue Enhancement: Reduction In Delinquent Accounts**

56. In deference to the large number of utility customers who faithfully pay their water bills on time, it is strongly recommended that the Council take aggressive action to support the prosecution of any customer found to be stealing water by tampering with or bypassing a meter. Notwithstanding the efforts of the Director of Public Works, this appears to be a significant problem. The disparity between water purchased and water resold is greater than acceptable industry standards. If local law enforcement agencies are unable or unwilling to pursue these matters they should be turned over to the State. **Cost Reduction: Reduction In Cost Of Lost, Unbilled Water**  
**Revenue Enhancement: Additional Amounts Of Water Billed**

57. It is recommended the utility billing and collections function be consolidated with the Tax Office. Careful coordination of the billing cycles and due dates will lead to greater efficiency, better use of personnel and effective cross training.

### **Kearny Public Library**

58. Records requested by the team from the Librarian, to include copies of the monthly statements on the interest bearing bank accounts, were readily available. The total allocation to the library by the governing body is in excess of the state mandated amount, particularly when the cost of debt service for library projects is considered. It is recommended the following be considered in the interest of reducing overlapping costs and making more money directly available for library services:

- Eliminate the appointment of a library attorney. The autonomy of the library board does not extend to matters of general policy and administration such as litigation, control of capital projects, insurance, etc. Accordingly, the resources and of the Town Attorney should be available, as part of the basic professional services agreement, to the library.
- Pursue the formation of a special support group, such as a "Friends of the Library" to generate additional funding. Library services face the perennial juxtaposition of being labeled a basic service available to all and a unique service oriented to a special interest group. This juxtaposition can be effectively addressed with a budgetary allocation and strong, independent fund raising efforts.
- Include all library capital improvement projects in the Town's Capital Improvement Plan, to include the ongoing effort to meet the Americans with Disabilities Act compliance standards. The efforts to generate grant income to pay for capital work can be coordinated with other grant application work, and, the costs for debt service on work not covered by grants can be properly planned.

## **SECTION TWO OPPORTUNITIES FOR CONSTRUCTIVE CHANGE SOME SUGGESTED FIRST STEPS**

In order for these recommendations to be implemented by the town of Kearny, the review team suggests the following steps be taken:

### **1. Chief Administrative Officer.**

There appears to be unanimous agreement among the elected officials that a "chief administrative officer" is needed. However, relatively minor differences of opinion exist regarding the timing, funding, job description and authority of such a position. Due to the lengthy amount of time required to complete the public employment process, it would be prudent to pursue this matter as quickly as possible.

The Chief Administrative Officer should be one of the highest paid employees of the Town. An administrator will work the longest week of any employee due to night and weekend meetings of Council committees, citizen groups, etc. All of the elected officials should participate in the final interview and selection process. The Council should recognize that there is an informal relationship between the pay scale and the ability to supervise others.

It is not uncommon for some opposition to exist among taxpayers because of the magnitude of the salary expense. Recommendations made in Section I identified new sources of money that exceed the total compensation package for an administrator. It would also be reasonable to expect that an administrator will continue to identify additional cost savings and new revenue opportunities.

The contents of the ordinance adopted by the governing body will dictate the role, responsibility, authority and reporting relationships for the new administrator. A town administrator in Kearny's form of government would report to the governing body as a whole and provide day to day supervision of all department heads. It would be unrealistic to expect an experienced, professional and non-partisan city manager to accept a position in Kearny if the job is limited in scope and authority or if it is limited to a two year term. Accordingly, it is suggested that a three-year contract be established for the new position.

A major by-product of the preparation and adoption of an ordinance establishing the Chief Administrative Officer position should be the clarification of the role of the elected officials in the operation of departments, and the Council's role in personnel and labor relations issues. As part of this constructive change, council members will have the opportunity to move beyond participating in the day to day operation of the Town to setting the priorities and direction for the future of Kearny.

## **2. Agenda Procedures and Council By-Lays**

The Open Public Meetings Act, and resulting case law clearly stipulates that the items to be discussed at a public meeting must be properly posted and distributed to the public. This has not been occurring in Kearny. Items are discussed and action is taken on matters that do not appear on the agenda; council members are not afforded the opportunity to obtain information and documents pertaining to agenda items, and matters that are tabled are not react to "a date certain" as required.

The Municipal Clerk should be charged with the responsibility of drafting and submitting an "agenda procedure" detailing the deadline for placing items on the agenda, methods of distributing information on agenda items, etc. In addition to improving compliance with the law, this should ensure that every elected official receives a complete agenda packet containing the information needed for review prior to a Council meeting.

The adoption of a set of Council bylaws pertaining to the structure, responsibility and focus of committees and the conduct of meetings would further enhance the governing body's ability to establish the priorities, policies and future direction of the Town of Kearny. It is recommended that a bipartisan ad hoc committee be formed to formulate and recommend a set of bylaws to the full governing body. Organizations such as the New Jersey Conference of Mayors and the New Jersey League of Municipalities can provide examples of Council bylaws and meeting procedures.

## **3. Unauthorized and/or Improperly Documented Payments**

The overall amount of compensation, inaccurate invoicing for professional services, lack of documentation in support of vouchers submitted for payment, and the lack of signed professional service agreements as required by law deserve immediate review and attention by the governing body. As outlined in Section I, the team identified several cases where the payments for professional services are being made when there is no agreement or contract in place, payments have exceeded the amount authorized in an approved contract, and/or professionals are billing separately for work that appears to be covered under a professional service agreement.

Regardless of past practice, all payments fitting any of the descriptions provided above should be stopped immediately. Professional service agreements must be signed and approved by the governing body and publicly advertised as required by law before any payments are resumed. The process of reviewing and approving these agreements should lead to a clear understanding of the work that is within the scope of a professional service agreement, i.e., the work that will be done for the compensation stated in the agreement and the resulting budget allocation.

The existence of an adopted professional service agreement or an approved letter of engagement does not eliminate the need for a thorough review of all vouchers submitted for payment. Kearny must develop an effective mechanism for the review and control of payments to appointed professionals. All vouchers seeking payment in advance for work not completed should be automatically denied by the Finance Officer, and, his actions should be strongly supported and endorsed by the governing body.

#### **4. The "Calendar of Contracts"**

Kearny has placed itself in the untenable position of having to extend contracts and/or accept proposed contracts without having the time to conduct a thorough review or consider alternatives. Two recent examples are the contract for refuse collection and the contract for third party administration of insurance claims. It is recommended the Municipal Clerk and Finance Officer be directed to develop an inventory of all existing contracts showing the authorized expenditure ceiling, the date and number of the resolution authorizing the Mayor to execute the agreement, and the date when the agreement expires. This should allow the Municipal Clerk, the Finance Officer and the governing body to properly plan and control these expenditures. This inventory will have to be updated routinely.

#### **5. In-house bookkeeping**

Standard financial and bookkeeping procedures such as posting of entries to the general ledger apparently are completed by the firm of the appointed municipal auditor. This work should be done by employees of the Town of Kearny. With all due respect to the individuals and the firm involved, the practice of having the same people complete the annual audit and maintain the financial books makes it impossible to have an "independent" audit as required by law. Notwithstanding any internal controls that may exist within the company, it is inappropriate for an auditing firm to review and comment on records that it prepares and maintains. In addition to resolving the ethical problem, the reduction in fees charged to the Town should be significant.

#### **6. Organization of the Finance Office**

Directly related to the recommendations outlined above, the State is prepared to provide technical financial assistance, monitoring, and supervision to Kearny for a period of up to three months at no charge. The purpose is to direct the reorganization of the finance office, resolving the backlog of work, establishing internal controls and supporting the implementation of other recommendations contained in this report. By doing this, the skill and abilities of the Assistant Treasurer can be put to better use, particularly as the bookkeeping functions are transferred from the auditor into Town Hall.



## **SECTION THREE**

### **OPPORTUNITIES FOR CONSTRUCTIVE THROUGH STATUTORY AND REGULATORY REFORM**

Each local budget review team is charged with the responsibility of identifying regulatory or statutory mandates that truly have an adverse impact on the cost of local government. Each of the findings summarized below will be reviewed by the appropriate state agency for the purpose of initiating constructive change at the State level.

#### **1. Coordination of Health Benefit Premiums**

The Town of Kearny has an unusually large number of overlapping health insurance premium payments. These result from two family members working for the Town at the same time, one family member working for the Town while receiving health benefits through a spouse's retirement program, or individuals working for two or more public agencies at the same time. While it is true that anyone receiving health insurance coverage can volunteer to waive this coverage, a far more effective solution would be for the State to actively pursue measures to eliminate the duplicate or overlapping payments for coverage.

#### **2. Public Assistance Trust Fund I (PATF I)**

When the State amended the process for reimbursing municipalities for the cost of public assistance, the primary purpose and use of PATF I was eliminated. In the case of Kearny, over \$275,000 appears to be available in PATF I. Under existing regulations, a municipality must petition the State Department of Human Services for permission to eliminate this old, unused account. In effect, the State is making each municipality seek permission to use its own money since the funds that comprise the balance of PATF I were reimbursements for past expenditures.

It is recommended that statutory or regulatory authority be granted statewide, permitting municipalities to close these accounts and to transfer the money into the account of its own choosing.

#### **3. Construction Code and Local Code Fee Waivers**

Current regulations require that fees for local code inspections and all construction codes (structural, electrical, plumbing, etc.) must be waived for work on a Stab project, yet the requirement to conduct the inspections and enforce these codes is not waived. It appears the definition of a "State project" has been extended to privately owned land and buildings under lease by a public agency. When a project is for the benefit of a stab agency, then the cost of the inspection work is unfairly borne by the

local taxpayers It is recommended that all regulations and statutes pertaining to the mandatory waiving of inspection and permits fees be reviewed.

#### 4. Delinquent Court Fines and Fees

The amount of money owed to the Town of Kearny and to the State from delinquent court fines and fees are steadily growing. Notwithstanding the persistent efforts of the Court Administrator and her staff, this receivable continues to grow at an alarming rate. Alternative solutions such as the suspension of a drivers license and community service are already being utilized.

Given the magnitude of the problem statewide, it is recommended that consideration be given to the following:

- Revising the eligibility standards for time payment programs;
- Simplifying the process and reducing the cost associated with filing the necessary documents to transfer a delinquent court fine into a civil matter, thereby permitting a lien or attachment to be filed;
- Ease the regulations limiting the use of bail money to offset some or all of the fines assessed by the bench;
- Explore the feasibility of establishing a system analogous to the sale of tax liens, thereby obtaining the money for the Courts. (Software developments notwithstanding, it is unreasonable to expect the Court Administrator to function as a collection agent.

#### 5. **The Tax Appeal Process**

Approximately \$175,000,000 in valuation is currently under appeal If the pattern of decisions rendered over the last four years on properties in Kearny is a reasonably accurate indicator, Kearny could lose another \$36,750,000 in assessed valuation and have to refund at least \$536,000 plus interest to the successful appellants.

Unfortunately, the projections provided above are very crude at best. It would be unlikely that any responsible business would rely on crude data such as this to make major decisions. Currently, municipal agencies have no other choice.

Under the current statutes and regulations, when an appeal is filed, appellants do not have to establish their position or proposed value for the property in question. As a result, the appeal process starts with a ceiling (the assessor's official valuation of the property) but no floor. The assessor, legal counsel and the governing body have no realistic way to project their financial liability in terms of taxes that may have to be refunded or to develop a cost benefit analysis as they set their strategy for responding to the appeal. In short, the playing field is not level. It is recommended the regulations and procedures for filing an appeal be carefully reviewed to eliminate this inequity

without eliminating the taxpayers right to pursue an appeal. If the inequity described above is eliminated, it is reasonable to expect that many of the questionable appeals will be eliminated.

It can be argued that the system gives large taxpayers an undue advantage in the appeal process, at the expense of small taxpayers who ultimately bear the burden of the expense caused by tax refunds to successful appellants. Several Kearny tax appeal cases are more than one year old. If the lag in case resolution for Kearny is the norm, then it is recommended that steps be taken immediately to address this issue to ensure timely resolution of the appeals.

Under current regulations, a Town's ability to adjust the assessed valuation is limited once a tax appeal decision is rendered. This is commonly referred to as the "Freeze Act". There is no comparable restraint on the appellant. It is recommended that a review of the application of this law be conducted to ensure that it equitably balances the interests of both the individual taxpayer and the municipality.

In addition to the difficulties and expenses resulting from the appeal process, consideration should be given to reviewing the regulations governing a Town's ability to plan and finance tax refunds resulting from the appeal process. It is not uncommon for a Town to encounter financial difficulty when faced with having to pay a large amount in tax refunds in a short period of time as a result of a court decision, due to their failure to adequately provide reserves for such expenses.

#### **6. Restrictions on the Use of POAA**

Revenues The use of Parking Offense Adjudication Act moneys is currently limited to improvements and/or staffing above and beyond that which is provided in the Town budget. Notwithstanding the fact that a Court may be self-sustaining, the restrictions on the use of this money should be lifted in the interest of eliminating restrictive State legislation and contributing to the fiscal stability of every Town.

## LOCAL GOVERNMENT BUDGET REVIEW

Brian W. Clymer, State Treasurer  
James A. Archibald, Deputy State Treasurer  
Brian T. Baxter, Associate Deputy State Treasurer  
Louis C. Goetting, IV, Director  
Harriet Derman, Commissioner, Department of Community Affairs  
Beth Gates, Director, Division of Local Government Services

### REVIEW TEAM

Frederick (Rob) Robison Team Leader  
Department of the Treasury  
Local Government Budget Review Team  
Mitchell Poole  
Department of the Treasury  
Local Government Budget Review Team  
Nancy Scott, Analyst  
Department of the Treasury  
Office of Management and Budget

Fred Begelman  
Department of Community Affairs  
Division of Local Government Services